



JOHN CHIANG
California State Controller

July 11, 2013

Carol Parish, Ed.D., Superintendent
South Bay Union School District
601 Elm Avenue
Imperial Beach, CA 91932

Dear Dr. Parish:

The State Controller's Office reviewed the costs claimed by the South Bay Union School District for the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975; and Chapter 1213, Statutes of 1991) for the period of July 1, 2007, through June 30, 2012. Our review was limited to ensuring that direct and indirect costs were properly reported in accordance with program requirements.

The district claimed \$466,933 for the mandated program. Our review found that \$132,442 is allowable and \$334,491 is unallowable. The costs are unallowable because the district did not report any Winton Act base-year costs and misstated indirect costs, as described in the attached Summary of Program Costs and the Findings and Recommendations.

For the fiscal year (FY) 2007-08 through FY 2011-12 claims, the State paid the district \$25,930. The State will pay allowable costs claimed that exceed the amount paid, totaling \$106,512, contingent upon available appropriations.

On June 5, 2013, we discussed the review results with Arlene Mitchell, Director of Fiscal Services. On June 10, 2013, we sent an email to Ms. Mitchell recapping the telephone conversation and providing additional documentation.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

Attachments

RE: S13-MCC-955

MAILING ADDRESS P.O. Box 942850, Sacramento, CA 94250-5874
SACRAMENTO 3301 C Street, Suite 700, Sacramento, CA 95816 (916) 324-8907
LOS ANGELES 901 Corporate Center Drive, Suite 200, Monterey Park, CA 91754-7619 (323) 981-6802

cc: Arlene Mitchell, Director of Fiscal Services
South Bay Union School District
Randall E. Ward, County Superintendent of Schools
San Diego County Office of Education
Scott Hannan, Director, School Fiscal Services Division
California Department of Education
Carol Bingham, Director, Fiscal Policy Division
California Department of Education
Thomas Todd, Assistant Program Budget Manager
Education Systems Unit, California Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

Attachment 1— Summary of Program Costs July 1, 2007, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable Per Review	Review Adjustments	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 51,048	\$ 51,048	\$ —	
Materials and supplies	401	401	—	
Contract services	24,131	24,131	—	
Subtotal	75,580	75,580	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(75,711)	(75,711)	Finding 1
Subtotal	75,580	(131)	(75,711)	
Adjustment to eliminate negative balance	—	131	131	
Increased direct costs, G1 through G3	75,580	—	(75,580)	
Component activities G4 through G7:				
Salaries and benefits	664	664	—	
Contract services	1,688	1,688	—	
Increased direct costs, G4 through G7	2,352	2,352	—	
Total increased direct costs, G1 through G7	77,932	2,352	(75,580)	
Indirect costs	4,777	144	(4,633)	Finding 2
Total program costs	\$ 82,709	2,496	\$ (80,213)	
Less amount paid by the State		(3)		
Allowable costs claimed in excess of (less than) amount paid		\$ 2,493		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 40,343	\$ 40,343	\$ —	
Contract services	90,570	90,570	—	
Subtotal	130,913	130,913	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(77,711)	(77,711)	Finding 1
Increased direct costs, G1 through G3	130,913	53,202	(77,711)	
Component activities G4 through G7:				
Salaries and benefits	2,344	2,344	—	
Contract services	270	270	—	
Increased direct costs, G4 through G7	2,614	2,614	—	
Total increased direct costs, G1 through G7	133,527	55,816	(77,711)	
Indirect costs	1,985	2,596	611	Finding 2
Total program costs	\$ 135,512	58,412	\$ (77,100)	
Less amount paid by the State		(15,962)		
Allowable costs claimed in excess of (less than) amount paid		\$ 42,450		

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Review	Review Adjustments	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 29,939	\$ 29,939	\$ —	
Contract services	91,589	91,589	—	
Subtotal	121,528	121,528	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(78,571)	(78,571)	Finding 1
Increased direct costs, G1 through G3	121,528	42,957	(78,571)	
Component activities G4 through G7:				
Salaries and benefits	3,958	3,958	—	
Increased direct costs, G4 through G7	3,958	3,958	—	
Total increased direct costs, G1 through G7	125,486	46,915	(78,571)	
Indirect costs	1,820	2,712	892	Finding 2
Total program costs	<u>\$ 127,306</u>	49,627	<u>\$ (77,679)</u>	
Less amount paid by the State		(9,965)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 39,662</u>		
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 35,060	\$ 35,060	\$ —	
Contract services	66,144	66,144	—	
Subtotal	101,204	101,204	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(80,413)	(80,413)	Finding 1
Increased direct costs, G1 through G3	101,204	20,791	(80,413)	
Total increased direct costs, G1 through G7	101,204	20,791	(80,413)	
Indirect costs	5,435	1,116	(4,319)	Finding 2
Total program costs	<u>\$ 106,639</u>	21,907	<u>\$ (84,732)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 21,907</u>		

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Review	Review Adjustments	Reference ¹
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 13,011	\$ 13,011	\$ —	
Contract services	1,090	1,090	—	
Subtotal	14,101	14,101	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(83,133)	(83,133)	Finding 1
Subtotal	14,101	(69,032)	(83,133)	
Adjustment to eliminate negative balance	—	69,032	69,032	
Increased direct costs, G1 through G3	14,101	—	(14,101)	
Total increased direct costs, G1 through G7	14,101	—	(14,101)	
Indirect costs	666	—	(666)	Finding 2
Total program costs	<u>\$ 14,767</u>	—	<u>\$ (14,767)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>Summary: July 1, 2007, through June 30, 2012</u>				
Total increased direct costs	\$ 452,250	\$ 125,874	\$ (326,376)	
Indirect costs	14,683	6,568	(8,115)	
Total program costs	<u>\$ 466,933</u>	132,442	<u>\$ (334,491)</u>	
Less amount paid by the State		(25,930)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 106,512</u>		

¹ See Attachment 2, Findings and Recommendations.

Attachment 2— Findings and Recommendations July 1, 2007, through June 30, 2012

The findings are the result of our review of the mandated cost claims filed for the legislatively mandated Collective Bargaining Program for the period of July 1, 2007, through June 30, 2012.

In 1975, the State enacted the Rodda Act (Chapter 961, Statutes of 1975), requiring the employer and employee to meet and negotiate, thereby creating a collective bargaining atmosphere for public school employers. The legislation created the Public Employment Relations Board to issue formal interpretations and rulings regarding collective bargaining under the Act. In addition, the legislation established organizational rights of employees and representational rights of employee organizations, and recognized exclusive representatives relating to collective bargaining.

On July 17, 1978, the Board of Control (now the Commission on State Mandates [CSM]) determined that the Rodda Act imposed a state mandate upon school districts reimbursable under Government Code section 17561.

Chapter 1213, Statutes of 1991, added Government Code section 3547.5, requiring school districts to publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding. On August 20, 1998, CSM determined that this legislation also imposed a state mandate upon school districts reimbursable under Government Code section 17561. Costs of publicly disclosing major provisions of collective bargaining agreements that districts incurred after July 1, 1996, are allowable.

Claimants are allowed to claim increased costs. For components G1 through G3, increased costs represent the difference between the current-year Rodda Act activities and the base-year Winton Act activities (generally, fiscal year [FY] 1974-75), as adjusted by the implicit price deflator. For components G4 through G7, increased costs represent actual costs incurred.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines on October 22, 1980 and amended them ten times, most recently on January 29, 2010.

In compliance with Government Code section 17558, the State Controller's Office issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

**FINDING 1—
Unreported Winton Act
base-year direct costs**

The district did not report any Winton Act direct costs on its mandated cost claims for FY 2007-08 through FY 2011-12. Specifically, the district did not offset the Winton Act base-year costs against the current year Rodda Act costs for components G1 through G3, thus understating the Winton Act base-year costs by \$395,539 for the review period.

The following table summarizes the unreported Winton Act base-year costs by fiscal year:

Winton Act Base-Year Costs	Fiscal Year					Total
	2007-08	2008-09	2009-10	2010-11	2011-12	
Base-year, FY 1995-96	\$ (17,546)	\$ (17,546)	\$ (17,546)	\$ (17,546)	\$ (17,546)	
Implicit price deflator	x 4.315	x 4.429	x 4.478	x 4.583	x 4.738	
Actual Winton Act base-year costs	(75,711)	(77,711)	(78,571)	(80,413)	(83,133)	(395,539)
Reported Winton Act base-year costs	-	-	-	-	-	-
Review adjustment	<u>\$ (75,711)</u>	<u>\$ (77,711)</u>	<u>\$ (78,571)</u>	<u>\$ (80,413)</u>	<u>\$ (83,133)</u>	<u>\$ (395,539)</u>

The amended parameters and guidelines (Section H – Supporting Data for Claims – Report Format for Submission of Claims) state:

- a. For component activities G1, G2, and G3:
 1. Determination of the “increased costs” for each of these three components requires the costs of current year Rodda Act activities to be offset [reduced] by the cost of the base-year Winton Act activities. The Winton Act base-year is generally fiscal year 1974-75.

Winton Act base-year costs are adjusted by the Implicit Price Deflator prior to offset against the current year Rodda Act costs for these three components. The Implicit Price Deflator shall be listed in the annual claiming instructions of the State Controller.

The Winton Act base-year costs were obtained from the FY 1995-96 claim submitted to the SCO’s Division of Accounting and Reporting. The implicit price deflator (IPD) is reported in the annual claiming instructions.

Recommendation

We recommend that the district ensure that all Winton Act base-year costs are properly adjusted by the IPD and offset against the district’s Rodda Act direct costs.

**FINDING 2—
Misstated indirect
costs**

The district claimed \$14,683 in indirect costs during the review period. We determined that \$6,568 is allowable and \$8,115 is unallowable. The costs are unallowable because the district applied the indirect cost rates to unallowable direct costs (see Finding 1); did not apply the indirect cost rate to contract services for FY 2008-09, FY 2009-10, or FY 2010-11; and used the wrong indirect cost rate for FY 2009-10.

Indirect cost rates applied to unallowable direct costs

The district overstated indirect costs by \$17,506 because it applied the indirect cost rates to the costs of the Rodda Act activities. The district should have applied the indirect cost rates to the costs of the Rodda Act activities less the costs of the Winton Act activities, as adjusted by the IPD.

As noted in Finding 1, the parameters and guidelines require that total direct increased costs for components G1, G2, and G3 be offset [reduced] by the cost of the base-year Winton Act activities. The Winton Act base-year is generally FY 1974-75. The error occurred because the district did not report any Winton Act direct costs on its mandated cost claims for FY 2007-08 through FY 2011-12.

The following table summarizes the adjustment for the unallowable indirect costs applied to unallowable direct costs:

Description	Fiscal Year					Total
	2007-08	2008-09	2009-10	2010-11	2011-12	
Unallowable direct costs	\$ (75,580)	\$ (77,711)	\$ (78,571)	\$ (80,413)	\$ (14,101)	\$ (326,376)
Claimed indirect cost rate	6.13%	4.65%	5.37%	5.37%	5.12%	
Review adjustment	<u>\$ (4,633)</u>	<u>\$ (3,613)</u>	<u>\$ (4,219)</u>	<u>\$ (4,319)</u>	<u>\$ (722)</u>	<u>\$ (17,506)</u>

Unclaimed indirect costs on contract services

The district did not claim indirect costs on contract services for FY 2008-09, FY 2009-10, or FY 2011-12, resulting in an understatement of \$9,198. We determined the allowable indirect cost by multiplying allowable contract services by the indirect cost rates claimed by the district.

The parameters and guidelines allow indirect cost rates provisionally approved by the California Department of Education (CDE). The CDE indirect cost rates apply to total direct costs (salaries and benefits, materials and supplies, and contract services). The error occurred because the district followed the claiming instructions that inadvertently excluded contract services from the calculation of indirect costs. The claiming instructions have since been corrected.

The following table summarizes the adjustment for unclaimed indirect costs on contract services:

Description	Fiscal Year			Total
	2008-09	2009-10	2011-12	
Allowable contract services	\$ 90,840	\$ 91,589	\$ 1,090	
Claimed indirect cost rate	4.65%	5.37%	5.12%	
Review adjustment	<u>\$ 4,224</u>	<u>\$ 4,918</u>	<u>\$ 56</u>	<u>\$ 9,198</u>

Misstated indirect cost rate

The district understated the FY 2009-10 indirect cost rates, resulting in an understatement of \$193. The district incorrectly used the FY 2010-11 indirect cost rate of 5.37% instead of the FY 2009-10 indirect cost rate of 5.78%.

The following table summarizes the adjustment for the misstated indirect cost rate:

Description	Fiscal Year
	2009-10
Allowable indirect cost rate	5.78%
Claimed indirect cost rate	<u>-5.37%</u>
Difference	0.41%
Increased direct costs	<u>\$ 46,915</u>
Review Adjustment	<u>\$ 193</u>

Recommendation

We recommend that the district use the indirect cost rates provisionally approved by the CDE, apply the indirect cost rates to eligible direct costs, and follow the updated guidance in the claiming instructions for calculating indirect costs on contract services.